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RUEHBO/AMEMBASSY BOGOTA 5485

RUEHBR/AMEMBASSY BRASILIA 9425

RUEHBW/AMEMBASSY BUENOS AIRES 6644

RUEHCV/AMEMBASSY CARACAS 3743

RUEHPE/AMEMBASSY LIMA 4024

RUEHM/AMEMBASSY MADRID 4113

RUEHMN/AMEMBASSY MONTEVIDEO 5602

RUEHQ/AMEMBASSY QUITO 6365

RUEHSG/AMEMBASSY SANTIAGO 1090

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C O N F I D E N T I A L SECTION 01 OF 02 LA PAZ 001485

SIPDIS

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TAGS: ECON PGOV PREL BL PE

SUBJECT: BOLIVIA-PERU: FRUSTRATIONS WITH EVO

REF: LA PAZ 313

Classified By: EcoPol Chief Mike Hammer for reasons 1.4 (b) and (d).

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Comment

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¶1. (C) Steadily deteriorating relations between Peru and Bolivia erupted in July 1 war of words between Presidents Morales and Garcia. The spat was triggered by a Morales' call for Peruvians to resist the imposition of U.S. army bases in Peru. Following the recall of the Peruvian Ambassador, Garcia lashed out at Morales asking, a la King Juan Carlos, why Evo doesn't "just shut up." Beneath the high-profile and hostile exchanges, is a growing frustration by Peruvian authorities in Bolivia with both the incompetence and rhetoric of the Morales administration. Meanwhile, Bolivian business is increasingly concerned that Evo's bumbling foreign policy threatens to close up to 70 percent of its export markets. End Summary.

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Presidential Passions

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¶2. (SBU) On June 28, President Morales praised Ecuador for forcing the removal of U.S. bases and called for the people of Peru to "resist" the planned move of the bases to that country. It was not the first time that Morales had made a direct appeal to Peruvians. In early June, Morales not only called president Garcia "fat and not very anti-imperialist," he also attended an opposition rally at the "Summit of the Peoples." This time around, Peru took diplomatic action and recalled its Ambassador to Lima to discuss bilateral relations. The day the ambassador was to leave, President Garcia made his remarks to the press, asking why Morales can't just shut up and mind his own country's business. Morales responded that "regal arrogance is not a vice that one should copy." He went on to say that he knew what it was like to live with a U.S. military base that represses the people, adding that military interventions of the U.S. are not internal affairs of a given country, but a problem for the whole region, a region that is advancing with "firm steps" toward integration (Note: Morales continues to believe that the Bolivian base at Chimore in the Chapare is a U.S. facility. In fact, we have not/not ever had any bases in

Bolivia. End note).

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A Working Relationship Stalled
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¶3. (C) Rhetoric aside, relations between Peru and Bolivia have been strained over the last year. Bolivian led resistance toward trade agreements has resulted in canceled trade negotiations with the European Union (Septel). Moreover, Peruvian diplomats in Bolivia are frustrated with the inability of the Morales administration to follow through on the simplest of agreements. Gerardo Prado, the economic official at the Peruvian Embassy, told EconOff that the government is absolutely impotent in front of any kind of social movement. As an example, he detailed how the two governments had worked out a deal to end a dispute over Peruvian tour buses crossing the border and continuing to the Bolivian city of Copacabana on Lake Titicaca. The local Bolivian transportation union had disrupted the long-standing practice, but Prado believed that the two governments had worked out a new resolution. Upon going to the lake with the appropriate Vice-Minister to "finalize the deal" with the local authorities, the party was met by local protests. The Vice-Minister retreated to La Paz promising to resolve the problem there. According to Prado, as of July 3 Peruvian buses are again able to enter, but the solution is only temporary.

¶4. (C) Another joint issue causing friction is the

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smuggling of highly subsidized goods into Peru (particularly liquid gas and diesel). According to Prado, the practice is of great concern to the Peruvian government as it seeks to establish an acceptance of market-determined prices. Around Lake Titicaca, Prado fears that a "culture of subsidized prices" has been established that threatens to undermine his government's efforts. Progress on halting contraband has been slow and trying to work with the Morales administration is "exceedingly difficult." The one success has been to limit truckers entering Peru to only two tanks of diesel. With this amount, they can make it to Peruvian ports and back without having to refuel. A third reserve tank of diesel is not permitted.

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Bolivian Business Raises Its Concerns
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¶5. (SBU) The President of the Bolivian Institute of Exporters (IBCE), Ernesto Antelo pointed out in speech on July 1 that the Morales administration has now created serious problems not only with the U.S., but also with the EU and Peru, three important markets for Bolivian goods. Meanwhile, the National Chamber of Bolivian Exporters (Caneb) warned that at least 70 percent of Bolivia's external markets are at risk of being lost. (Note: This figure is too high, as gas exports to Brazil account for more than half of all exports. However, in terms of manufactured goods this percentage may be accurate. End note.) Indeed, while trade between Peru and Bolivia is balanced (both countries export around \$220 million to one another), access to Peruvian Ports is important for Bolivian exporters. Prado said that for every one Peruvian truck that enters Bolivia, ten Bolivian trucks cross the border into Peru.

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And Then There Are the Nationalizations
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¶6. (C) During the May 1 nationalizations, The Bolivian Hydrocarbon Logistics Company (CLHB) was expropriated from Peruvian and German owners. According to Steve Townsend, Counselor at the British Embassy, the expropriation came as a surprise to both the German and Peruvian Embassies which

thought that after months of tense negotiations they had come to an agreement with the Bolivian government. Prado said that the Peruvian Embassy was still trying to help work out a deal, but little progress was being made. (Note: The problem is strictly cost, the Bolivian government has offered some \$12 million for the company, while the previous owners assert that market value is closer to \$40 million. End note.)

While this nationalization lingers, the Morales administration may well now have its eye on PIL, the largest milk processor in Bolivia and a wholly owned subsidiary of Peruvian conglomerate "Gloria." There have been recent announcements against "monopolies" in the food industry and the Bolivian state has already tried to start several milk factories (Reftel). Prado said that the embassy was very concerned that nationalization plans may well be underway. He pointed out that milk producers in Cochabamba were pressing for nationalization because then they would "get a piece" of the company.

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Comment
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¶7. (C) Evo's undiplomatic remarks seem to be increasing at the cost of his international image. While, in the eyes of Evo, the U.S. is still the "Empire" behind all evil in the region, it appears he is also prepared to go after our free-market friends since they undermine his vision of what Latin America should look like. Evo rose to power being confrontational, but the skills that served him well as a coca union leader are starting to isolate his government both internally and externally.

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